



**comptel** 123

Annual Report





## To our Shareholders:

Since Computel pioneered the remote access computing industry in Canada six years ago, we have continually striven to meet not only present computing needs but also to anticipate future requirements. With the recognition by industry and government leaders of the economic advantages of utilizing the computer services industry, we undertook a major expansion program during the past year to meet the growing demand.

The expansion program was designed to increase capacity both at the Company's wholly-owned subsidiary, Information Systems Design (ISD) in California and in Ottawa. The first phase of this program was the installation of a second Univac 1108 computer at ISD. In Ottawa, the expansion program called for the installation of a new IBM 370/165 computer, which will be replaced by an IBM 370/168 early in 1974, and relocation of the Univac 1108 computer from Laurier Avenue to the Company's St. Laurent Computer Centre. Various difficulties occurred during this phase which temporarily limited the capacity of the combined IBM 360/370 system, contributed to higher operating costs and a decline in customer usage. All systems are now performing well.

As a result, although revenues for the year ending August 31, 1973 rose to \$6,438,000, up 25% from the corresponding period a year earlier, the loss for the fiscal year was \$1,247,240 as compared with a loss of \$247,488 for the previous year.

### Information Systems Design

The addition of the second Univac 1108 assisted ISD in attracting new customers and helped the company achieve a profitable level of operation for the year.

### Financial

In December 1972, Computel called its 5% promissory note to Systems Associates Inc. (SAI), which was issued as part of the consideration for the purchase of ISD. The terms of that note permitted SAI to convert part of the outstanding balance of the note into Computel common stock at \$5.00 (U.S.) per share to a maximum of 18,000 shares if the note was called prior to January 1, 1973, or the entire outstanding balance to a maximum of 40,000 shares if called thereafter. Systems Associates elected to convert to the maximum extent and received 18,000 shares and payment of \$135,000 (U.S.).

In June 1973, the Company obtained funding of \$500,000, using certain of the Company's computers as security for a 10 1/4% chattel mortgage.

During the year two senior executives were added. Dr. J.F. Horwood assumed the responsibility of General Manager and Mr. M.P. Brown that of Vice-President, Operations.

We regret that Mr. C.G. Fleming, a director for the past 5 years, has asked that his name not stand for election this year. Mr. Fleming's leadership, sound advice and active participation on the Board of Directors will be sorely missed.

An important development after the year end was the announcement that the Company has contracted to supply The Royal Trust Company with computing services in excess of \$1,000,000 a year over a five year period. This permits Royal Trust to eliminate its major computer equipment and realize significant savings on its data processing work. Royal Trust has also agreed to purchase a 6% 15-year, convertible unsecured note in the amount of \$4,000,000, convertible at \$13.33 per share. Furthermore, to the extent that any of Computel's presently outstanding \$4,000,000 convertible subordinated debentures are converted at \$35.70 per share, Royal Trust will be granted the right to purchase pro rata up to a further 112,000 shares of common stock of Computel at this latter price.

This arrangement with Royal Trust provides the Company with the resources to expand its services throughout the public and private sectors of Canada and to continue to play a leading role in the growing computer services industry.

Throughout a trying year, our employees displayed unstinting dedication to the interests of the Company. Their efforts are acknowledged on behalf of all shareholders, with sincere thanks.

R.T. Horwood  
President.

October 10, 1973.

1973

## Consolidated Balance Sheet - August 31, 1973

	1973	1972
<b>Assets</b>		
Current:		
Cash and short-term investments (at cost which approximates market)	\$ 490,726	\$ 549,478
Accounts receivable (note 5)	1,056,130	1,195,755
Prepaid expenses	138,292	99,527
	<u>1,685,148</u>	<u>1,844,760</u>
Fixed, at cost:		
Computer and ancillary equipment (note 4)	9,449,431	9,404,514
Furniture and fixtures	215,085	192,463
Leasehold improvements	493,398	231,054
	<u>10,157,914</u>	<u>9,828,031</u>
Less: accumulated depreciation and amortization	4,860,092	3,762,492
	<u>5,297,822</u>	<u>6,065,539</u>
Other, at cost less amortization:		
Bond, debenture and share issue expenses	193,030	216,394
Goodwill	41,481	59,241
Incorporation expense	5,772	281,407
	<u>234,511</u>	<u>\$8,191,706</u>
On behalf of the Board:		
Robert T. Horwood	Director	
Robert A. Skene	Director	

On behalf of the Board:

Robert T. Horwood Director

Robert A. Skene Director



# computel systems ltd.

(Incorporated under the laws of Canada)  
and its wholly-owned subsidiaries

## STATEMENT 1

### Liabilities and Shareholders' Equity

#### Current:

Accounts payable and accrued charges	\$ 732,231
Accrued interest payable	132,553
Taxes payable	40,738
Current portion of long-term debt	399,923

Long-term debt (note 2)	1,305,445
	5,352,722

#### Shareholders' equity:

Share capital (note 3)	

#### Authorized:

1,000,000 common shares without nominal or par value	

#### Issued:

617,578 shares (1972 — 598,078 shares)	

Deficit (statement 2)	

	1973	1972
Accounts payable and accrued charges	\$ 732,231	\$ 458,869
Accrued interest payable	132,553	124,787
Taxes payable	40,738	40,218
Current portion of long-term debt	399,923	453,984
Long-term debt (note 2)	<u>1,305,445</u>	<u>1,077,858</u>
	<u>5,352,722</u>	<u>5,412,294</u>
Share capital (note 3)		
Authorized:		
1,000,000 common shares without nominal or par value		
Issued:		
617,578 shares (1972 — 598,078 shares)	4,403,056	4,298,056
Deficit (statement 2)	<u>(3,843,742)</u>	<u>(2,596,502)</u>
	559,314	1,701,554
	<u>\$7,217,481</u>	<u>\$8,191,706</u>



## STATEMENT 2

**Consolidated Statement of Income and Deficit  
for the Year Ended August 31, 1973**

	1973	1972
<b>Income:</b>		
Computer time and related charges	\$6,388,723	\$5,020,741
Leasing contract revenue	24,780	114,020
Interest income	24,096	20,824
	<u>6,437,599</u>	<u>5,155,585</u>
<b>Expenses, including depreciation:</b>		
Operating costs	5,672,551	3,720,213
Administrative, marketing and systems expenses	1,598,719	1,235,922
Interest on long-term debt	413,569	446,938
	<u>7,684,839</u>	<u>5,403,073</u>
Net loss for the year	1,247,240	247,488
Deficit, beginning of year	2,596,502	2,349,014
Deficit, end of year	<u>\$3,843,742</u>	<u>\$2,596,502</u>



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and its wholly-owned subsidiaries

STATEMENT 3

**Consolidated Statement of Source and Application of Funds  
For The Year Ended August 31, 1973**

	1973	1972
<b>Source of funds:</b>		
From operations:		
Loss for the year	\$(1,247,240)	\$(247,488)
Depreciation	1,145,561	1,103,858
Amortization of bond, debenture and share issue expenses	23,364	23,364
Amortization of goodwill	17,760	17,760
Loss on sale of fixed assets	17,672	67,621
Write-off of fixed and other assets	32,334	5,388
Total funds (deficiency) from operations	(10,549)	970,503
Sale proceeds of fixed assets	2,300	150,056
Proceeds from issue of shares	105,000	
Issues of long-term debt	500,000	
	596,751	1,120,559
<b>Application of funds:</b>		
Purchase of fixed assets	424,378	44,911
Reduction of long-term debt	559,572	454,969
	983,950	499,880
<b>Increase (decrease) in working capital during the year</b>	<b>\$ (387,199)</b>	<b>\$ 620,679</b>

1973

## Notes to the Consolidated Financial Statements August 31, 1973

### 1 Principles of consolidation

The consolidated financial statements include the accounts of Computel Leasing Ltd., Ottawa, Ontario, and Information Systems Design, Oakland, California, the Company's wholly-owned subsidiaries.

### 2. Long-term debt

	1973	1972
Total long-term debt	\$5,752,645	\$5,866,278
Less current portion	<u>399,923</u>	<u>453,984</u>
	<u>\$5,352,722</u>	<u>\$5,412,294</u>

#### Bonds - \$374,000

Under the terms of the Trust Deed securing the 9% first mortgage sinking fund bonds, sinking fund instalments of \$182,000 and \$192,000 are required on January 15, 1974 and January 15, 1975, respectively. In addition, the Company may, at its option, redeem bonds at any time to January 15, 1974

at 101.5% of the principal amount and thereafter at par.

#### Debentures — \$4,000,000

Under the terms of the Trust Indenture securing the 6% convertible subordinated debentures, the Company is required to retire through the operation of a sinking fund, \$500,000 principal amount of debentures in each of the years 1980 to 1987 inclusive. These debentures are convertible into common shares at \$35.70 per share at any time prior to September 15, 1978. In addition, the Trust Indenture provides that the Company may, at its option, redeem debentures at any time prior to maturity at prices ranging from 104.8% of the principal amount if redeemed before September 14, 1973, to 100% of the principal amount if redeemed after September 14, 1987.

The Company may not pay any cash dividends on its common shares until all of the first mortgage bonds and the convertible subordinated debentures have been retired.

10 1/4% chattel mortgage on the California 1108 with a second charge against the IBM 360/65 and Ottawa 1108 due March 15, 1977, with interest payable semi-annually.

\$500,000

9 1/2 % promissory note repayable monthly to July, 1974

\$ 43,270

Purchase contracts outstanding are payable as follows:

1. 18 monthly instalments of principal and interest of \$9,550 at 9.3% per annum. \$159,998
2. 28 monthly instalments of principal and interest of \$6,954 (U.S.) at 10% per annum. \$175,377

Principal repayment for the next five years of long-term debt outstanding as at August 31, 1973 is as follows:

1974	\$399,923
1975	325,358
1976	527,364
1977	500,000
1978	Nil

During the year the Company called its \$225,000, 5% convertible promissory note due to Systems Associates Inc., the former parent of Information Systems Design. Systems Associates elected to convert to the maximum extent of \$90,000 (U.S.) and received in return 18,000 shares. The balance of the note amounting to \$135,000 (U.S.) was paid in cash.

### 3. Share capital

	Number of shares	Amount
Balance at beginning of year	598,078	\$4,298,056
Issued during the year under employee stock option plan	1,500	15,000
Conversion of promissory note	18,000	90,000
	<u>617,578</u>	<u>\$4,403,056</u>

#### Other long-term debt —

10 1/4% chattel mortgage on the IBM 360/65 equipment due January 15, 1976, with interest payable semi-annually.

\$500,000



# computel systems ltd.

Under the terms of an employee stock option plan, options have been granted to certain employees of the Company to purchase in the aggregate 10,600 shares at \$10.00 per share.

These options expire at various dates to May 16, 1978.

A total of 122,600 shares have been reserved for the conversion of the 6% subordinated debentures and employee stock options.

## 4. Computer and ancillary equipment

The Company owns three major computer systems and other computer equipment as follows:

	Cost	Accumulated depreciation	Net book value
Ottawa 1108	\$3,238,526	\$1,699,138	\$1,539,388
Ottawa 360/65	2,635,160	1,219,405	1,415,755
California 1108	2,316,653	998,298	1,318,355
Other equipment	1,259,092	636,086	623,006
	<u>\$9,449,431</u>	<u>\$4,552,927</u>	<u>\$4,896,504</u>

Depreciation of computer and ancillary equipment has been provided on the basis of an eight-year life with provision for a 15% residual or salvage value.

## 5. Commitments

The Company occupies leased premises under agreements of up to four years' duration, with five year renewal options at all locations. In addition, the Company leases equipment and has contracted for prime shift maintenance services for its computers. All computer lease agreements are for a period of one year or less. Based on lease agreements and maintenance contracts in existence at August 31, 1973, the commitment for the fiscal year 1974 is expected to be \$3,200,000, (1973 — \$2,475,000).

Security has been provided to the lessor of an IBM 370 model 165 in the form of a \$250,000 letter of credit, which expires in November 1973, from the Company's bank. A general

assignment of book debts of the Canadian operations has been given to the bank to secure the letter of credit.

## 6. Statutory information

The Company has nine directors and eight officers, three of whom are directors. Remuneration paid during the year to the officers amounted to \$149,000 (1972 — \$106,000). No remuneration was paid to directors as such.

## 7. Legal action

Information Systems Design has filed a complaint against a competitor and certain individuals seeking injunctive relief and damages for alleged theft of trade secrets and confidential information, interference with advantageous business relations and unfair competition. A jury trial was held on the complaint in August, 1972 and the jury returned a verdict in favour of ISD in the sum of \$300,500. The trial judge has since ordered a new trial limited solely to the issue of the amount of damages suffered by ISD. No charges for legal fees relating to this action have been expensed to date. Estimated legal fees of \$84,000 and any future expenses will be offset against the damages awarded.

## 8. Loss carry-forward

The Company has written depreciation

and its wholly-owned subsidiaries

in the accounts in amounts greater than capital cost allowance claimed for tax purposes. The difference, together with the loss carry-forward, is available to reduce taxes payable in the future.

## 9. Loss per share

The net loss per share calculated on the average number of shares outstanding during the year is \$2.04 (1972 — \$0.41).

## 10. Event subsequent to the year end

On September 18, 1973, The Royal Trust Company and Computel signed an agreement whereby

- Computel will issue to Royal Trust a \$4,000,000 6% convertible unsecured note, payable in 1988. The conversion price is \$13.33 per share.
- Computel will issue to Royal Trust stock options to purchase 112,000 common shares at \$35.70 per share. The options may be exercised on a pro rata basis if, as and when the 6% debentures, which were issued in 1969, are converted.

## 11. Comparative Figures:

Certain of the 1972 expenses have been reclassified to conform with the 1973 presentation.



### Auditors' Report

To the Shareholders of Computel Systems Ltd.

We have examined the consolidated balance sheet of Computel Systems Ltd. as at August 31, 1973 and the consolidated statements of income and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at August 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ottawa, Canada,  
October 5, 1973

*Clarkson, Gordon & Co.*  
Chartered Accountants.

### Directors

Frederick B. Brooks-Hill  
Christopher G. Fleming  
Robert C. Heilig  
Robert T. Horwood  
Ronald T. Lane  
Charles E. O'Connor  
Robert A. Skene  
Robert N. Steiner

### Officers

President and Chief Executive Officer  
Robert T. Horwood  
General Manager  
James F. Horwood  
Executive Vice-President, Administration  
Ronald T. Lane  
Vice-President, Operations  
Maurice P. Brown  
Vice-President, Marketing  
Gordon W. Gow  
Vice-President, Products and Services  
Robert G. Murray  
Vice-President, Finance and Secretary  
Robert A. Skene  
Vice-President, Advanced Technology  
Andrew M. Wyszkowski

### Auditors

Clarkson, Gordon and Co.

### Registrar and Transfer Agent

Canada Permanent Trust Company

### Listing

Toronto Stock Exchange

### Offices and Principal Equipment

1200 St. Laurent Boulevard, Ottawa  
931 Yonge Street, Fifth Floor, Toronto  
Place du Canada, Suite 1210, Montreal  
7817 Oakport Street, Oakland, California

IBM 370/165, IBM 360/65, UNIVAC 1108 and Executive Offices  
Terminals/Marketing  
Terminals/Marketing  
UNIVAC 1108 (2)



